

Message Text

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ACTION PM-04

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C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 16878

CINCPAC ALSO FOR POLAD

6. SIT IS IN PART BECAUSE THE US HAS HELPED MEET SOME OF ITS BASIC MILITARY EQUIPMENT NEEDS THAT THE GOI LEADERSHIP HAS BEEN ABLE TO JUSTIFY DEVOTING INCREASINGLY SMALLER SHARES OF THE NATIONAL BUDGET TO DEFENSE NEEDS (20 PERCENT IN FY 75, 17 PERCENT IN FY 76 AND ONLY 14 PERCENT IN FY 77)M THE GOVERNMENT'S ASSUMPTION IN 1975 OF THE HUGE PERTAMINA DEBT HAS NOT ONLY CURTAILED ITS ABILITY TO DEVOTE BUDGETARY RESOURCES TO THE MILITARY BUT HAS ELIMINATED WHAT SEEMS TO HAVE BEEN SUBSTANTIAL EXTRA-BUDGETARY SUPPORT (FREE OR LOW COST FUEL FOR EXAMPLE) WHICH THAT COMPANY HAD ONCE PROVIDED THE ARMED FORCES. A LOSS OF GRANT MILITARY ASSISTANCE AS WELL AS PERTAMINA SUPPORT COULD HELP LEAD MILITARY ELEMENTS TO DEMAND A REASSESSMENT OF NATIONAL BUDGET PRIORITIES AND ULTIMATELY PERHAPS A CHANGE IN THE GOVERNMENT'S ECONOMIC DEVELOPMENT ORIENTATION.

7. BECAUSE THE ARMED FORCES ARE THE POLITICAL BASE OF THE CURRENT GOVERNMENT, GRANT MILITARY ASSISTANCE HAS FACILITATED US ACCESS TO ALL LEVELS OF GOVERNMENT ON A NUMBER OF IMPORTANT MATTERS. LITTLE RELATED TO DEFENSE. IN REGARD TO HUMAN RIGHTS, FOR EXAMPLE, PROGRESS IN THE RELEASE OF PKI PRISONERS DETAINED IN THE WAKE OF THE 1965 COMMUNIST POWER PLAY CAN BE TRANCED
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IN PART TO DEMARCHES WE HAVE MADE TO TOP ECHELONS OF THE MILITARY COMMAND. THE MILITARY LEADERSHIP HAS ALSO BEEN PARTLY RESPONSIBLE FOR THE GENERALLY MODERATE AND CONSTRUCTIVE STANCE INDONESIA HAS TAKEN ON THIRD WORLD ISSUES, TOWARD WHICH MANY INDONESIANS HAVE AN EMOTIONAL, "NON-ALIGNED" BIAS. (WE CAN TRACE INDONESIA'S DEPARTURE FROM THE G-77 POSITION ON THE UNGA GUAM RESOLUTION, FOR EXAMPLE, PARTLY TO OUR REPRESENTATIONS TO MILITARY LEADERS.) THIRD WORLD AND OPEC ATTITUDES ARE, OF COURSE, OF MUCH GREATER CONCERN TO THE US NOW THEN WHEN THE

GRANT AID PROGRAM FOR INDONESIA WAS INITIATED. ELIMINATION OF GRANT MILITARY ASSISTANCE WILL UNDOUBTEDLY RESTRICT OUR ACCESS TO POLICY-MAKING LEVELS OF THE MILITARY ON THESE SUBJECTS.

8. WITHIN THE FY 78-83 TIME FRAME, THE BULK OF THE LEADERSHIP ROLES IN INDONESIA WILL PASS FROM THE "45 GENERATION" WHICH EMERGED DURING INDONESIA'S INDEPENDENCE STRUGGLE, TO A NEW GENERATION WITH A DIFFERENT PAST AND PERHAPS DIFFERENT VALUES. SINCE A VIABLE, BROADLY-BASED CIVILIAN POLITICAL ORGANIZATION HAS NOT YET BEEN ESTABLISHED, THE NEW LEADERSHIP IS HIGHLY LIKELY TO COME AGAIN FROM THE MILITARY. IT IS, THEREFORE, IMPORTANT THAT THE US MAINTAIN ALL POSSIBLE MEANS OF INFLUENCING THE OUT-LOOK OF THIS NEW LEADERSHIP.

9. ALTHOUGH OUR GRANT MILIARY ASSISTANCE PROGRAM FOR INDONESIA HAS BEEN QUITE MODEST WHEN COMPARED WITH LEVELS FOR OTHER COUNTRIES OF SIMILAR SIZE, NEED AND STRATEGIC SIGNIFICANCE, IT HAS IN THE AGGREGATE EXCEEDED THAT FROM OTHER DONOR NATIONS. FOR THIS REASON AND BECAUSE IT COMES FROM THE FREE WORLD'S LEADING POWER, IT HAS ASSUMED A SYMBOLIC SIGNIFICANCE IN THE EYES OF INDONESIA'S MILITARY LEADERS EXCEEDING THE MATERIAL BENEFITS IT CONVEYS. WE HAVE BEEN ACCORDED CORRESPONDING INFLUENCE IN HELPING SHAPE INDONESIA'S INTERNAL AND EXTERNAL POLICIES. WE HAVE, IN SHORT, RECEIVED FAR MORE THAN THE MONEY'S WORTH OF OUR MILITARY GRANT ASSISTANCE. CONSIDERING THE DAYS AHEAD FOR INDONESIA AND FOR THE THIRD WORLD, IT IS AN ASSET WE CANNOT NOW AFFORD TO LET LAPSE.

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10. QUESTION IS APPROPRIATELY ASKED WHETHER GRANT AID CAN CONTINUE TO BE JUSTIFIED TO COUNTRY WITH OIL REVENUES SUCH AS INDONESIA. INDONESIA, DESPITE OIL PRODUCTION, IS MODEST PRODUCER AND WITH SUBSTANTIAL POPULATION; PER CAPITA INCOME REMAINS LOW. FURTHER, FOR REASONS RELATING IN LARGE MEASURE TO WORLD ECONOMIC DOWNTURN, INDONESIA WILL FACE CRITICAL DEBT PROBLEM OVER NEXT THREE TO FIVE YEAR PERIOD. THIS SITUATION OPTS FOR CONTINUED GRANT ASSISTANCE. AT SAME TIME, IN ANTICIPATION OF POST-GRANT AID RELATIONSHIPS, WE HAVE ENCOURAGED WIDER USE OF FMS CREDIT AND SALES. BECAUSE OF FISCAL PROBLEMS INDONESIA SEEKING MORE FAVORABLE TERMS ON FMS CREDIT AND FUTURE PLANS MAY WELL INCREASE PROCUREMENT THROUGH CREDIT OR SALES BEYOND PRESENT LIMITES. UNTIL THEN, GRANT PROGRAM REMAINS BACKBONE OF CURRENT SUPPLY.

11. IT CAN ALSO BE ARGUED THAT GOI HAS NO ALTERNATIVES TO US SUPPLY. INDONESIANS HAVE HOWEVER ALREADY DEMONSTRATED WILLINGNESS TO SEEK EQUIPMENT ON CREDIT TERMS IN EUROPE AND KOREA, AND THESE COUNTRIES HAVE RESPONDED WITH TERMS BETTER THAN FMS. NEVERTHELESS, NO EUROPEAN COUNTRY OR KOREA CAN PROVIDE BASIC WEAPONS AND MATERIEL ON FAVORABLE CREDIT TERMS. IF US GRANT PROGRAM SUDDENLY TERMINATED, WE CANNOT EXCLUDE POSSIBILITY OF INDONESIAN RETURN TO EASTERN EUROPE SUPPLY SOURCES.

12. THE AMOUNT AND COMPOSITION OF THE GRANT ELEMENT IN SUBSEQUENT PROGRAMS SHOULD, NEVERTHELESS, BE CAREFULLY CHOSEN TO ELIMINATE WITHIN FIVE YEARS INDONESIA'S DEPENDENCE UPON IT. THIS TASK WILL BE FACILITATED BY FACT THAT SELF-SUFFICIENCY IS ALSO AN INDONESIAN GOAL.
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